Low Income Housing Tax Credit Program

Fact Sheet

The Low Income Housing Tax Credit (LIHTC) was created by Congress under Section 252 of the Tax Reform Act of 1986 to promote the construction and rehabilitation of housing for low-income persons. The tax credit provides a means by which developers may raise capital for the construction or acquisition and substantial rehabilitation of housing for low income persons. Under the federal income tax code, investors in low-income rental housing are permitted to take a credit against taxes owed the federal government. In Massachusetts, the Department of Housing and Community Development (DHCD) is the allocating agency for tax credits. DHCD is responsible for preparing the annual allocation plan and making it available for review by interested members of the public before final publication. Because it depends on investor capital rather than just direct government subsidies, the LIHTC has imposed market discipline that results in long term stability for the projects. Investors assume significant risks and assert strict business discipline in selecting projects and overseeing their development and long-term operations.

How it works

Developers of affordable rental housing developments apply to DHCD for tax credits. If they are awarded the credit, the developers (either for-profit or nonprofit) seek investors to help pay for the development of the housing. Intermediaries (known as syndicators) act as a bridge between investors and projects and often pool investors' money into equity funds. In exchange for providing development funds, the investors receive a stream of tax credits. Projects can qualify for two types of credits: a 9% credit, or a 4% credit.* Tax credits can be claimed by the investors for 10 years. For example, based on an investor willing to pay $.75/tax credit dollar, a project eligible for $500,000 in annual credits, would receive $3,750,000 ($500,000 in credit x 10 years x $.75) in equity.

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* 4% tax credits are allocated by the MassHousing (formerly Massachusetts Housing Finance Agency) in conjunction with MassHousing's tax-exempt bond financing. The Massachusetts Development Finance Agency (MDFA) also allocates 4% tax credits in conjunction with tax-exempt bonds.

Who is eligible

Both for-profit and nonprofit developers can qualify for the credit. At least 20% of the units must be reserved for persons with incomes at/or below 50% of the area median income adjusted for family size; or at least 40% of the units must be made affordable for persons with incomes at/or below 60% of the area median income adjusted for family size. In addition, the project must be retained as low-income housing for at least 30 years.

For further information

Please call the Division of Housing Development at (617) 573-1300.